

Message Text

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ACTION AF-18

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03

SS-15 USIA-15 ACDA-19 IO-15 AID-20 EB-11 COME-00

INT-08 OMB-01 TRSE-00 SCEM-02 CIEP-02 DRC-01 /194 W

----- 080084

R 271532Z SEP 73

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 1232

INFO AMEMBASSY BELGRADE

AMEMBASSY LONDON

OECD PARIS 3646

AMCONSUL ZAGREB

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E.O. 11652: N/A

TAGS: ENRG, NI

SUBJECT: NIGERIA DELAYS NEW OIL PRODUCTION-SHARING AGREEMENTS

REF: LAGOS 4783 (NOTAL)

1. BEGIN SUMMARY: NIGERIA HAS CONCLUDED A SINGLE PRODUCTION-SHARING AGREEMENT SINCE LAST YEAR'S DECISION TO GRANT NO FURTHER CONCESSIONS. DESPITE MANY PENDING PROPOSALS, ADDITIONAL AGREEMENTS ARE UNLIKELY UNTIL THE GOVERNMENT AND NATIONAL OIL COMPANY DECIDE A NEW PRODUCTION-SHARING POLICY. THIS IS LIKELY TO RESULT IN TERMS LESS FAVORABLE TO THE FOREIGN FIRMS THAN THOSE IN RECENT ASHLAND DEAL. END SUMMARY.

2. FMG ANNOUNCED IN 1972 THAT NO FURTHER OIL CONCESSIONS WOULD BE GRANTED AND EXPLORATION AND DEVELOPMENT OF ALL REMAINING OIL AREAS WOULD THEREFORE BE CONDUCTED ONLY BY MEANS OF PRODUCTION-SHARING OR STRAIGHT SERVICE CONTRACTS WITH THE NIGERIAN NATIONAL OIL CORPORATION (NNOC). NNOC HAS

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SUBSEQUENTLY CONTRACTED WITH THE SOVIETS FOR SEISMIC SURVEYS, AND

PERHAPS OTHER SERVICE CONTRACTS HAVE BEEN SIGNED OR ARE UNDER NEGOTIATION. NEVERTHELESS, THE ONLY PRODUCTION-SHARING CONTRACT TO DATE IS THE ONE CONCLUDED JUNE 12, 1973, WITH ASHLAND OIL COMPANY (REFTEL). A NUMBER OF OTHER COMPANIES (INCLUDING AMOCO, CONOCO, AND PHILLIPS) ARE KNOWN TO HAVE SUBMITTED PRODUCTION-SHARING PROPOSALS WHICH ARE AWAITING ACTION BY NNOC.

3. THE EMBASSY RECENTLY LEARNED THAT NNOC REGARDS THE ASHLAND CONTRACT (WHICH, IF OIL IS EVENTUALLY PRODUCED, GIVES THE COMPANY FULL RECOVERY OF EXPLORATION AND PRODUCTION COSTS AND TAXES, PLUS 30-35 PERCENT OF THE REMAINING OIL) AS HAVING BEEN TOO CONCESSIONARY. NNOC IS HONORING ITS COMMITMENT TO ASHLAND (INDEED ASHLAND'S EMBLEM WAS RAISED TWO WEEKS AGO ABOVE A NEW OFFICE BUILDING IN THE LAGOS SUBURB OF IKOYI), BUT THE OTHER PROPOSALS ARE BEING HELD IN ABEYANCE PENDING FORMULATION OF A NEW NNOC POLICY TOWARD PRODUCTION-SHARING. ONCE THAT HAS BEEN ACHIEVED, PRESUMABLY IN A FEW MONTHS TIME, NEW PRODUCTION-SHARING CONTRACTS WILL BE ENTERED INTO, BUT THEIR TERMS ARE CERTAIN TO BE HARDER THAN THOSE OBTAINED BY ASHLAND.

4. FYI: ON SEPTEMBER 14 MR. C.R. TOTEBUSCH OF THE ATLANTIC-RICHFIELD COMPANY (ARCO) TOLD THE NNOC EXPLORATION AND PRODUCTION MANAGER (MARINHO) THAT ARCO WOULD BE WILLING SIGN PRODUCTION-SHARING CONTRACT SIMILAR TO THAT OF ASHLAND. ARCO'S PROPOSAL WAS COURTEOUSLY RECEIVED, BUT MARINHO EXPLAINED THE POINTS IN PARA 3 ABOVE WHICH TOTEBUSCH SUBSEQUENTLY SHARED WITH EMBASSY.

5. THIS WAS ARCO'S FIRST DIRECT CONTRACT WITH THE FMG OR NNOC, BUT TOTEBUSCH REVEALED THAT FOR SOME MONTHS ARCO HAS BEEN PARTICIPATING BEHIND THE SCENES IN A PRODUCTION-SHARING PROPOSAL PUT FORWARD BY THE YUGOSLAV COMPANY INDUSTRIJA NAFTE (INA) AND PRESENTED IN LAGOS BY THE YUGOSLAV AMBASSADOR. ARCO HAS HAD A LONG RELATIONSHIP WITH INA (AND APPEARS TO HAVE AN EYE ON INA'S CONCESSIONS IN THE EASTERN ADRIATIC), AND THE YUGOSLAV PROPOSAL TO THE NNOC CALLS FOR AN ASSIGNMENT TO ARCO AS OPERATOR. AS A RESULT OF TOTEBUSCH'S TRIP, ARCO NOW HAS TWO IRON IN THE FIRE, ONE IN CONNECTION WITH THE YUGOSLAVS AND ONE ON ITS OWN.
END FYI

6. COMMENT: THE FOREGOING IS REPORTED IN SOME DETAIL SO AS TO LIMITED OFFICIAL USE

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CONVEY THE CURRENT STATE OF NIGERIAN OIL POLICY. ALTHOUGH STILL STRUGGLING TO FIND STAFF AND GET ORGANIZED, NNOC HAS BEEN FORCED TO ENGAGE IN MANY IMPORTANT NEGOTIATIONS (PARTICIPATION, ROYALTIES IN KIND, DIRECT CRUDE SALES, OPEC PRICING, AND LNG, TO NAME A FEW), AND THE POLITICAL ORGANS OF GOVERNMENT ARE PRESSURING NNOC TO MAXIMIZE THE FINANCIAL RETURNS TO NIGERIA. NO WONDER THEREFORE THAT NEW EXPLORATION AND DEVELOPMENT AGREEMENTS (PRODUCTION-SHARING) ARE BEING HELD UP, AND ANY IN THE FUTURE ARE

MOST LIKELY TO BE CONSIDERABLY HARDER THAN THE SINGLE
PRECEDENT (ASHLAND). THIS INFORMATION, ESPECIALLY PARAGRAPH 3,
MAY BE USED TO ADVISE U.S. COMPANIES INTERESTED IN NIGERIA
PROVIDED, OF COURSE, THAT SPECIFIC INFORMATION ABOUT ARCO IS
WITHHELD.
REINHARDT

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, PETROLEUM CONCESSIONS, ECONOMIC AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LAGOS07865
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: LAGOS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973097/aaaaaeqe.tel
Line Count: 121
Locator: TEXT ON-LINE
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: LAGOS 4783 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 12 OCT 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12-Oct-2001 by shawdg>; APPROVED <11-Dec-2001 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NIGERIA DELAYS NEW OIL PRODUCTION-SHARING AGREEMENTS
TAGS: ENRG, NI
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005